



## *Report to the Auburn City Council*

Action Item

Agenda Item No. **14**

  
City Manager's Approval

**To:** Mayor and City Council Members  
**From:** Rich Ramirez, Interim City Manager  
**Date:** May 12, 2014  
**Subject:** Draft Auburn Deficit Elimination Plan and Triggers (ADEPT)

### The Issue

Organizations that face daunting issues, new growth opportunities or external forces requiring the organization to rethink its mission, will apply a strategic planning process to address those issues or opportunities. The Draft Auburn Deficit Elimination Plan and Triggers (ADEPT) is an outline that may be used to prepare strategic solutions to the financial dilemma the City faces with the advent of retail competition, significantly higher pension costs for fire, police and other city workers, and external pressures that could call into question the City's continued viability.

### Recommendation

Following the review of the Draft ADEPT, the City Council direct incoming City Manager Tim Rundel to review the ADEPT, forwarding their suggestion for inclusion into ADEPT. Once reviewed by City Manager elect Tim Rundel, return the ADEPT for consideration by the City Council.

### Background

As the City of Auburn greeted the New Year, signs of an improving regional economy brought hope that City service levels could continue to be restored to pre-Great Recession standards. Regrettably, a "perfect storm" fell over Auburn on several fronts: New "big-box" retail competition on the City's boundaries, the unexpected major increases in retirement costs, especially for Fire & Police, the unexpected recent push to retain limited term positions that had lost Federal Funding (SAFER), and the mother of all financial calamities to hit Auburn, SB983. Setting aside SB983, a measure that would result in a 2.0± million dollar reduction in sales tax dollars (35-45% of revenues) from card-lock petroleum sales taxes to the City, the other above mentioned external conditions alone place the City into a structural deficit by FY 2016. However, if SB983 survives in its current wording the measure would crush the City financially requiring a complete rethinking about the continued viability of the City of Auburn. Fortunately, SB983 appears to be headed for a compromise and amendments being floated would remove it from the Auburn financial calamity equation. Regardless, even if SB983 is amended to the City's satisfaction, the City of Auburn is still facing a structural deficit starting 2015.

What is a structural deficit? A structural deficit is a government deficit that is independent of the business cycle—it remains even when an economy is at its full potential. This is created when a government is spending more than a long-term average of tax revenue can bring in. In other words, it is a financial condition wherein operating expenditures increasingly exceed operating revenues over a sustained period of time with no end in sight. The only way to cure such a condition is to reduce expenditures, even more than the City has already done, increase revenues or a combination of both.

The causes for the City's structural deficit have been well documented except for the recent campaign to retain five firefights that were temporary-limited hires funded by the Federal Government. Should the City Council desire not to eliminate the subject limited term positions, the cost to retain those limited term positions is approximately \$76,000 per position or \$380,000± for all five.

The attached Draft Auburn Deficit Elimination Plan and Triggers (ADEPT) is an outline that can be used to prepare strategic solutions to the financial dilemma the City faces with the advent of retail competition, external forces and significantly higher pension costs for fire, police and other city workers. Regardless, except of the adoption of SB 983, the attached ADEPT is designed to provide a pathway to eliminate the structural deficit, with or without the inclusion of the limited term positions.

#### **Fiscal Impact**

There is no negative fiscal impact with the consideration of the draft ADEPT.

## INTRODUCTION

Thanks in large measure to the City Council's leadership the City was emerging from the dramatic lasting impacts of the "Great Recession". Had no unexpected external pressures been exerted against the City, it would have continued to move restore pre Great Recession service levels.

Regrettably, on March 10, 2014 the Auburn City Council was presented with a set of difficult financial challenges facing the City in the not too distant future (see Exhibit I). Specifically, setting aside any legislative act that could further compound the fiscal crisis confronting the City (SB 983), Auburn was looking at operating deficits starting in Fiscal Years 2016-2018 due to three primary reasons. The first, based on an unanticipated recent action by the California Public Employees Retirement System (PERS), is the significant increase in the cost to pay for retirement benefits for current, future and retired workers in PERS. Because of a number of missteps over the years with respect to employee and employer contributions to fund the California Public Employees Retirement System (PERS), PERS has a significant underfunded liability to cover current and future participants in the system. That means pension premiums have to increase to make up for the unfunded liability. Regrettably, Auburn's recalculated contractually obligated pension payments to the California Public Retirement System will significantly increase between 2015 and 2020 creating a structural deficit for the City. The second is the anticipated, albeit undetermined, erosion of sales tax revenues flowing to the City upon the opening of "big box" retail competition next to but outside the City's corporate city limits. The third is if the City Council resends its planned elimination of limited term positions, the deficit could be increased by as much as \$386,000 in any year the positions are not eliminated.

The structural deficit is all the more frustrating for the City and its dedicated workforce in light of the herculean and arguably drastic reductions in staffing at all levels of the organization. Layoffs, salary and benefit reductions, along with the improving local economy, vis-a-vis the prudent leadership of the City Council, once was viewed as the end to a long decline in City resources. In fact the City was beginning to explore how those aforementioned reductions might have been restored, but for the new PERS payments. The PERS "hit" alone, means that by 2020 the annual operating deficit would nearly exceed \$600,000 and would continue to grow beyond 2020. Likewise, with the opening of Wal-Mart and Costco just outside the City's boundaries, revenues are sure to be significantly eroded if nothing is done to counter retail sales seepage; not counting the campaign to not eliminate limited term positions.

The task before the City is difficult, nevertheless it is manageable if the Community acts now to develop a strategy to deal with the situation. The City has some time to adjust, prepare and place into motion a strategic plan that could ultimately eliminate the coming deficits. What follows are the principles that could be used to craft a strategy to avert the crisis headed Auburn's way between 2015 and 2020.

## Deficit Elimination Principles

The following guiding principles are designed to set the table for a strategic plan that would have an implementation program or “triggers” designed to reduce and eventually eliminate the structural deficit over time. The following is a list of those guiding principles and triggers (actions) for putting the principles to work.

Principle 1: No new City of Auburn initiatives or programs will be undertaken unless and until a new revenue source equal to or greater than 125% of the cost of the new initiative is identified or the General Fund is reduced equal to or greater than 125% of the cost of the new initiative.

Principle 2: Whenever possible shifting costs from the General Fund to other agencies, non-profits or resources is encouraged. Any shift of a previous General Fund cost to another resource center will be considered a permanent elimination of the activity from the General Fund.

Principle 3: General Fund resources are to be preserved in order to support the effort to maximize the preservation of General Fund reserves so as to use them to partially off-set, or smooth the impact of the coming deficits. To that end, all General Fund Capital expenditures without executed contracts will be frozen immediately until such time as the structural deficit is eliminated. Exceptions may be made by the City Council for immediate health and safety considerations, e.g. emergency repairs.

Principle 4: The structural deficit places the City in a zero sum game wherein any new service or extension of a service planned for elimination is placed in the budget an equal or greater reduction in exiting City services will have to be realized. Department Managers will be given the flexibility to tactically adjust operations, in consultation with the City Manager, to maintain their staffing provided the Department Manager can reduce Department operating costs elsewhere to maintain staffing levels.

Principle 5: Unless approved by the City Manager only salaried personnel not subject to overtime will attend after hour meetings that would result in overtime pay.

Principle 6: Preservation of General Fund Reserves so as to provide for emergencies or to smooth out the impact of the structural deficit will be a priority. Beginning in FY 2015, in no case shall reserves be used by more than 10% or \$90,000, whichever is the lessor amount, in any year to reduce/eliminate a deficit in the General Fund.

Principle 7: An early exit program for current City workers program will be considered provided it will result in a real reduction in future annual operating cost through 2020.

Principle 8: By March of 2016, the City Manager shall submit an annual update on the projected deficit making recommendations on organizational restructuring to eliminate the structural deficit including but not limited to eliminating programs and operations.

Principle 9: At such time as General Fund expenditures exceed General Fund revenues by 102%, after transfers but before the use of reserves, triggers will be considered for activation to bring reoccurring

expenditures below the 102 threshold. Trigger activation will subject to meet and confer with City labor groups.

Principle 10 Only the General Fund will be subject to the Principles contained herein.

#### Triggers

Subject to meeting and conferring with City of Auburn labor groups, the City will consider the implementation of one or all of the below economic crisis reduction programs if

- A) The above Guiding Principles fail to decrease the trajectory deficit by the end of FY 2016 as depicted on Table I.
- B) Revenues decline by more than 10% in any single year
- C) Reoccurring expenditures increase by more than 5% over reoccurring revenues after taking into consideration transfers two years in a row
- D) The percentage increase year over year in property tax revenues fail to stay even with the CPI

#### Cost Reduction Actions--as a result of Triggers being activated (Not in Priority)

- 1) Implement furloughs which will not increase long term expenses to the General Fund per the City's EERR
- 2) Implement Layoffs per the City's EERR
- 3) Freeze COLA's
- 4) Terminate funding of all funding to non-profits
- 5) Contract out current City Services that result in reoccurring General Fund cost reductions
- 6) Eliminate all out of area (Sacramento SMSA) travel
  - ) Eliminate Car Allowance and rely solely use of City vehicles
- 8) Reduce salaries
- 9) Eliminate City Services (e.g. janitorial)
- 10) Consider increasing revenues that can off-set service costs via increase fees, rents, or special funding districts, (e.g. Lighting and Landscaping Districts)
- 11) Consider placing on the ballot a General or Special Purpose Tax (e.g. increase TOT, Business Licenses, etc.)
- 12) Other

**City of Auburn Financial Forecast**  
Includes CalPERS Mortality Assumptions Feb 2014

**EXHIBIT 1**

